MILLENNIUM
ENERGY INC.

1997
ANNUAL
REPORT

HIGHLIGHTS

12-Month Period Ended December 31	1997	1996
FINANCIAL		
Royalty revenue	222,381	148,208
Per share	0.003	0.02
Net income (before taxes)	11,593	4,045
Per share	0.002	0.001
Working capital	247,445	(6,300)
Long term debt	285,000	410,000
Shareholders' equity	695,974	471,047
Shares outstanding (average)	7,697,452	7,500,000
Shares outstanding (at year-end)	9,250,000	7,500,000
OPERATING		
Average production		
Natural gas (Mcf/d)	330	403
Average prices		
Natural gas ($/Mcf)	1.85	1.82

SHARE TRADING (Based on daily closing price)	
Prices ($)	
High	0.28
Low	0.13
Close	0.17
Volume	
Shares	951,500
Value ($)	$ 209,132

ANNUAL MEETING

The Annual and Special Meeting of Millennium Energy Inc. will be held Monday, August 31, 1998 at 3:00 pm., at the Calgary Petroleum Club, Calgary, Alberta. Shareholders are encouraged to attend and those unable to do so should complete and return their Form of Proxy.

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MESSAGE TO THE SHAREHOLDERS

Since acquiring its first oil and gas asset on April 30, 1996, Millennium has pursued a conservative business plan. In last year's annual report, we noted that many start-up energy companies opt for "high risk-high reward" projects in their infancy; Millennium, on the other hand, was going to adopt a more considered approach, choosing instead to acquire assets which generate solid cash flow, while identifying other higher-impact transactions which add value. An investment in Millennium, it was noted, should be made with a view to growth over several years. Although this annual report will have the year "1997" on the front cover, it is intended to show the reader where the future lies as a result of this business philosophy and how the Company is poised to move on to the next phase in its growth. That growth will come from two sources: the Company's exploration program and the recently announced acquisition of $4.15 million in producing assets.

The exploration program was initiated during the summer of 1997 with Millennium's election to participate in the drilling of a well at Morinville, Alberta and the signing of a 3-D seismic option on lands in the Rumsey and Seal West areas of Alberta. Throughout the Fall, the Company continued to develop, identify and pursue other opportunities, including the proposed acquisition of a 125,000 hectare (83,750 net) concession in Colombia, South America. In order to fund its Canadian drilling initiatives, Millennium issued 1,500,000 million flow-through shares at $0.25 per share on December 29, 1997 for total proceeds of $350,625 after brokers' fees. Attached to each flow-through share was one flow-through share warrant, entitling the holder to acquire an additional flow-through share of Millennium at $0.35.

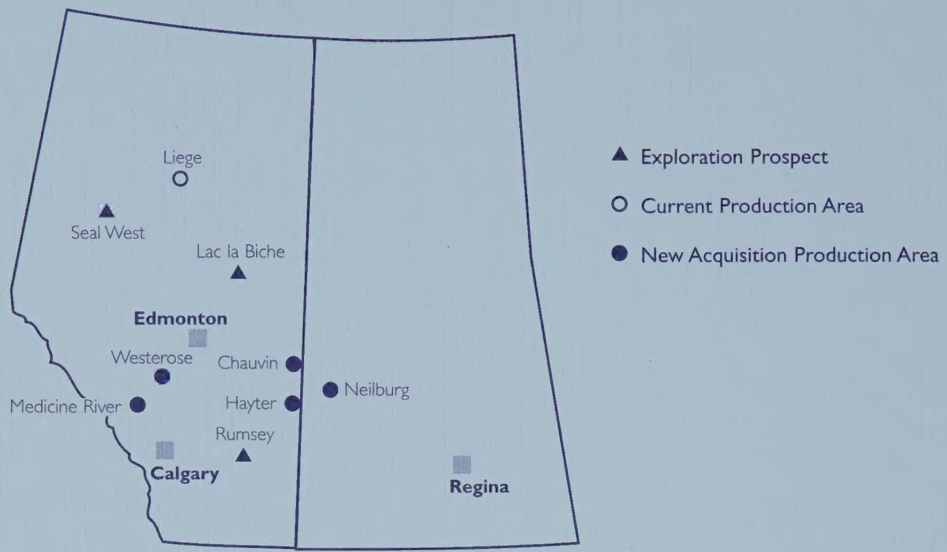
On March 20, 1998, Millennium entered into a letter of intent with two limited partnerships managed by EnerVest Resource Management Ltd. ("EnerVest") to acquire $4.1 million in oil and gas assets (the "EnerVest Acquisition"). The EnerVest Acquisition, when completed, will increase the Corporation's daily production from 35 Boe to over 300 Boe and increase established reserves (proved plus 1/2 probable) from 43 Mboe to 697 Mboe. The purchase price will be satisfied by Millennium issuing 16,597,959 million common shares to the vendors at a price of $0.25 per share. Closing is expected to occur as soon as practicable following regulatory, shareholder and limited partner approval. Upon closing, the management of Millennium has agreed to nominate two representatives of EnerVest to the five-person Millennium board of directors. Subsequent to closing, EnerVest plans to wind-up one of the partnerships and distribute its Millennium shares to the limited partners, who in turn will become Millennium shareholders. This will add significantly to the Company's market liquidity, once the shares become free trading after the expiry of the applicable hold period.

Indeed, the EnerVest Acquisition will see Millennium scale-up its operations in an exciting and dramatic fashion. It will add to an already solid cash flow base from which the Company can continue to pursue its exploration initiatives.

Martin Hislop
President & Chief Executive Officer
July 17, 1998

Steven Cloutier
Executive Vice President &
Chief Operating Officer

OPERATIONS REVIEW



OVERVIEW

Millennium continued to receive stable cash flow during 1997 from its principal asset, a gross overriding royalty on gas production at Liege, Alberta. During the year, the Company initiated its 1997/98 exploration program, including the drilling of a well at Morinville and the negotiation of seismic options at Rumsey and Seal West.

AFFILIATION WITH APF ENERGY GROUP

The founding shareholders and senior officers of Millennium are also the managers of APF Energy Trust ("APF"), an oil and gas royalty trust whose units trade on The Toronto Stock Exchange ("AY.UN"). As of March 31, 1998, APF had $50 million in oil and gas assets and daily production of approximately 2,585 Boe.

As a result of its affiliation with APF, Millennium has access to a complete range of technical support staff, without carrying the full financial burden; as such, it has the ability to identify and evaluate a variety of plays and acquisitions usually limited to larger oil and gas companies. Millennium will have the opportunity to drill on APF exploration land as well as to participate with APF in acquisitions which have exploration or development potential.

An extension of the foregoing is that Millennium's overhead will be low, as APF absorbs a greater share of the general and administrative costs based on daily production levels. This will allow Millennium to retain more of its cash flow than similar-sized E&P companies.

LIEGE, ALBERTA

All of Millennium's operational revenue during 1997 was derived from a gross overriding royalty on the production from 7 gas wells at Liege, Alberta, located 250 miles north of the city of Edmonton (the "Liege GORR"). Until January of 1998, the wells had been operated by Pinnacle Resources Ltd. ("Pinnacle"); as of February 1, 1998, Pinnacle sold all of its interests in the Liege area to Paramount Resources Ltd., a significant operator in the area.

Gas was first developed in the pool with the drilling of 03-30-091-20 W4M in 1985. Subsequent follow-up wells were drilled which defined the areal extent of the pool. Production in the area is obtained from the Wabiskaw sandstone. The Wabiskaw sandstone overlays a thick Grosmont limestone member which is filled with heavy crude oil. Although the underlying heavy oil is immobile, due to its high viscosity, it may be providing some indirect solution gas which is feeding into the Wabiskaw sandstone above. Gas production in the area is collected and processed through an 850 BHP Booster Compressor at 16-12-091-21 W4M.

The Liege GORR encumbers all petroleum and natural gas production which is being or may be obtained from 7 sections of land. Each of the wells has been drilled on 640-acre spacing (1 section). Accordingly, the Corporation does not anticipate that any additional drilling will occur.

MORINVILLE, ALBERTA

Millennium participated in the drilling of one well during 1997, being the 6-35-056-25W4 well at Morinville operated by Petrohawk Energy Ltd. The well was cased and tested in the Upper Mannville and Basal Quartz zones and flowed gas at the rate of 575 Mcf/d from the Basal Quartz. The tests also revealed the presence of a gas and oil column in the upper zone. The well has been shut-in pending additional evaluation of the Upper Mannville. As soon as the follow-up work has been completed, Millennium and its partners will make the decision to either tie-in production or abandon the well. By drilling the well, the Company earned a 25% interest in 640 acres.

RUMSEY, ALBERTA

Millennium has interests in 3 operated sections of land at Rumsey, located 2 km from the Fenn Big Valley reef. The Company's initial earning of 12% in N16, S21-34-20W4M came with the completion of a 3-D seismic program in February 1998; Millennium then acquired a 27% working interest in the 2 other sections at a Crown land sale in March 1998. In July 1998, the Corporation announced that it had drilled a well at 8-21-34-20W4, resulting in a dry hole. Millennium's interest was 24%. The Corporation and its partners are now reviewing the data in order to confirm the existence of other drilling projects on the remaining acreage.

SEAL WEST, ALBERTA

The Company shot 3-D seismic over these lands in February 1998 and earned a 12% working interest in one section. The data is now being processed and interpreted. Because of terrain, access to the property is restricted to the winter months; accordingly, any drilling as a result of the identification of an anomaly will take place in Winter 98/99. The target is Slave Point oil. Large offsetting blocks of land have recently been acquired by Renaissance and Newquest at premium prices.

LAC LA BICHE, ALBERTA

APF has an interest in 64 sections of developed and undeveloped land at Lac la Biche and, with industry partners, entered into a farm-out agreement with Millennium to drill a well 15-8-64-11W4M. The well was drilled in June 1998 and tested in July. Millennium's interest is 50%. Management estimates reserves at 1 Bcf (gross). Tie-in to nearby infrastructure will likely occur during the third quarter. Other opportunities in the area are also being pursued. The primary targets are low risk, shallow Colony and Wabiskaw gas zones. Although APF generally has the rights only to the base of the Wabiskaw, Millennium also intends to evaluate the deeper Wabamun and Nisku formations and, where appropriate, make farm-in proposals to other working interest parties. Up to 4 additional farmout candidates have been identified by APF and Millennium.

COLOMBIA, SOUTH AMERICA

In addition to its operations in western Canada, Millennium and an industry partner are negotiating the acquisition of a large exploration concession in the Guajira area of Colombia, South America (the "Guajira Concession"). Millennium has a two-thirds interest in the project. The concession lies in the northern Colombian desert, just west of Venezuela's prolific Maracaibo Basin and east of Texaco's large offshore Chuchupa gas field.

Activity in the area has begun to increase significantly. Ecopetrol, the Colombian state-owned oil and gas corporation, recently granted exploration concessions immediately to the north and west of the Guajira Concession. Amoco, Arco, Texaco and Shell have now made exploration commitments totaling US$180 million to explore for reserves over 10 million hectares of land.

A formal proposal was submitted by Millennium and its partner to Ecopetrol on June 30, 1997, followed by meetings with Ecopetrol officials in Bogota in November of 1997 and in Calgary in April and June of 1998. The partners have since satisfied the financial conditions required by Ecopetrol and are working towards concluding a contract for the exploration of 125,000 hectares. The board of directors of Ecopetrol is expected to meet in late July to consider the proposal, and Millennium hopes to update shareholders on the status of the project in its second quarter interim report.

ENERVEST ACQUISITION

On March 20, 1998, Millennium announced that it had entered into a letter of intent with two limited partnerships managed by EnerVest Resource Management Ltd. ("EnerVest") to acquire a number of oil and gas properties in Alberta and Saskatchewan. The purchase price of $4.15 million will be satisfied by Millennium issuing 16,597,959 million common shares at $0.25 per share.

Since entering into the agreement, Millennium has had the assets evaluated by Sproule Associates Limited, independent engineers, which prepared an evaluation effective April 1, 1998 (the "Sproule Report"). Set out below is a brief description of the principal properties evaluated in the Sproule Report.

Chauvin, Alberta

The Company will acquire a 5 % working interest subject to various royalties in 1,640 gross acres of land in the form of P&NG leases in the Chauvin area of Alberta, located approximately 150 miles southeast of the city of Edmonton. Drilling on Company lands began in 1971 with the discovery of the Sparky H pool in the well 6-19-42-1 W4. Further development of the Sparky H pool has resulted in 16 oil producers, 3 suspended oil wells, 2 abandoned wells, 9 water injection wells, and 3 water disposal wells. Pressure maintenance by water injection into the Sparky H pool commenced in January 1977, and water is still being injected. Oil production from the 16 producing wells averaged 615 Bbl/d with a 96 % water cut during February 1998 (date of last available data). The wells in the Chauvin Sparky H pool are operated by Enerplus Resources Corporation, which has indicated that up to four additional infill wells may be drilled in 1998.

Hayter, Alberta

The Company will acquire various working interests (ranging from 0.1812 % to 1.08 %) in Sections

24, 25, 26 and 34-40-1 W4M which consist of approximately 2,120 gross (15 net) acres of land, and are subject to 'new' Crown and/or Freehold royalties with some lands encumbered with gross overriding royalties. New wells drilled in 1996 and 1997 on sections 25 and 26-40-1 W4M all qualify for the Alberta Royalty Tax Credit (ARTC). Drilling on the Company lands began in the late 1970s and continued to 1988 using only vertical wells to exploit the Sparky and Dina sands. Beginning in 1991, horizontal wells have been exclusively drilled to improve recovery from the extensive Dina formation. The Company lands include 119 producing oil wells (32 vertical and 87 horizontal) and 8 water disposal wells. Current gross production from the Company lands as of February 28, 1998 (date of last available data) consists of 10,729 Bbl/d (70 Bbl/d net), and 79,830 Bwpd at a water cut rate of 89.1 %. Norcen Energy Resources Limited (now UPRI) is the operator of the wells in Sections 24, 25 and 34-40-1 W4M and Fletcher Challenge Energy is the operator of the wells in Section 26-40-1 W4M. Additional horizontal drilling is planned in 1998.

Medicine River (Non-Unit), Alberta

The Company will acquire various non-unit working interests at Medicine River, comprising 9 pumping oil wells, 2 gassy oil wells, 8 flowing gas wells, 15 suspended or shut-in oil zones and 3 suspended or shut-in gas zones. Oil and gas production is obtained from the Viking, Glauconitic, Ostracod, Lower Mannville/Basal Quartz, Jurassic, Pekisko, and Elkton-Shunda zones. Production is predominantly operated by Enerplus Resources Corporation, which has indicated that it will continue its infill and fracture stimulation program in 1998.

Neilburg, Saskatchewan

The Company will acquire various working interests in the Neilburg Area of Saskatchewan, located approximately 30 miles southeast of the city of Lloydminster. To date, 79 wells have been drilled on the lands in which the Company owns an interest. Drilling began in mid-1978 and continued until 1994. Of the 79 wells located on the lands 11 wells are classified as abandoned. Of the remaining 68 wells, 21 are still producing, and proven developed producing oil reserves have been assigned to 15 of these. Of the 79 wells drilled in the area, 5 are horizontal wells. The operator of the majority of the wells is Enerplus Energy Services Inc. None of these lands is unitized, and, to date, pressure maintenance by waterflooding has not been implemented in any of the pools. The primary producing zones in the area are either the McLaren, Mannville or Colony Formations. Production, as of January, 1998 was approximately 300 Bbl/d, (gross), at a water cut of approximately 35 %. Cumulative production to January, 1998 has been approximately 3,050,000 barrels of oil.

Westerose, Alberta

The Westerose property is located approximately 50 miles north of Red Deer, Alberta. The Company will acquire interests varying between 2.5 % and 8 % in petroleum and natural gas leases, covering the Upper Mannville, Lower Mannville, Glauconitic, and Basal Quartz gas pools, and the Viking oil pool. Crestar Energy operates the majority of the production from the reservoirs, with Enerplus Resources and Rigel Oil and Gas operating the remaining wells. Currently, there are two marginally economic oil wells, 17 producing gas wells, and 1 shut-in gas well awaiting recompletion. The area includes interests in 13,280 gross acres of land, all of which have been developed. Current net sales are 300 Mcf/d of gas and 17.5 Bbl/d of natural gas liquids.

The EnerVest acquisition will add approximately 280 Boe/day of production, of which approximately 80% will be from oil and natural gas liquids and 20% from natural gas. The Sproule Report has assigned established (proved plus 1/2 probable) reserves of 614 Mboe.

Closing of the EnerVest acquisition is expected to occur in early September, as soon as practicable following approval by The Alberta Stock Exchange, Millennium shareholders and EnerVest limited partners.

RESERVES

The following tables summarize the Company's reserves as at December 31, 1997, and pro forma following the completion of the EnerVest acquisition, effective April 1, 1998. The Liege GORR has been evaluated internally by management.

	Oil (Mbbl)	Gas (Mmcf)	NGL (Mbbl)	Total (Mboe)	NPV@12% (M$)
Dec. 31/1997					
Proved		431		43.1	445.2
Proved + Probable		431		43.1	445.2
Proved + 1/2 Probable		431		43.1	445.2
Apr. 1/1998					
Proved	297.1	2,432	92.4	632.7	4,372.3
Proved + Probable	423.7	2,440	92.8	760.5	5,128.3
Proved + 1/2 Probable	360.4	2,436	92.6	696.6	4,750.3

No reserves as yet have been assigned to Millennium's interest in the shut-in well at Morninville, or on its prospect at Seal West.

Reserve Reconciliation Proved + 1/2 Probable	Mmcf
December 31, 1996	1,009
Less: Production	120
Less: Revisions	458
December 31, 1997	431

Price Forecast as at January 1, 1998

	W.T.I. Oil $US/Bbl	Edmonton Light Oil $Cdn./Bbl	Alberta Avg. Gas $Cdn./Mmbtu
1998	19.00	25.75	1.60
1999	20.00	26.75	1.85
2000	20.75	27.25	2.00
2001	21.50	28.00	2.15
2002	22.00	28.75	2.30
2003	22.50	29.50	2.45
2004	23.00	30.00	2.60
2005	23.50	30.75	2.70
2006	24.00	31.25	2.75
2007	24.50	32.00	2.80
2008	25.00	32.75	2.90
Thereafter	+2%/year	+2%/year	+2%/year

BORROWING

Millennium has a revolving credit facility with National Bank of Canada ("NBC"). As at December 31, 1997, the principal outstanding under that facility amounted to $405,000. The loan bears interest at NBC prime rate plus 1.25% and is secured by a General Assignment of Book Debts and a Floating Charge Debenture on all of the assets of the Corporation. As a result of the EnerVest Acquisition, Millennium has received a commitment from NBC for a new revolving credit facility in the amount of $2 million.

ENVIRONMENTAL MATTERS

Because the Liege GORR did not create an interest in land for Millennium, the Company had no obligation for environmental matters. However, since its current exploration and development activity has brought such obligations, Millennium intends to ensure that its operations, environmental and safety programs are maintained at levels well above industry standards. As a result of its affiliation with APF, the Company is provided with the expertise necessary to surpass those standards.

INSURANCE

Millennium carries insurance to provide protection of its interests in its current and future assets at or above industry standards. Insurance policies cover property damage, general liability and, for certain properties, business interruption. The ongoing level, type and maintenance of insurance will be determined by Millennium based upon the availability and cost of such insurance and Millennium's perception of the risk of loss.

YEAR 2000 CONSIDERATIONS

The Corporation is aware of the issues associated with the programming code in existing computer systems as the millennium (year 2000) approaches. The "year 2000" problem is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two digit year value to 00. The issue is whether computer systems will properly recognize date

sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

The Corporation is utilizing both internal and external resources to identify, correct or reprogram, and test its systems for the year 2000 compliance. It is anticipated that all reprogramming efforts will be completed by December 31, 1998, allowing adequate time for testing. To date, confirmations have been received from the operators of the Corporation's properties that plans are being developed to address processing of transactions in the year 2000. The Corporation presently believes that the Year 2000 problem will not pose significant operational problems for the Corporation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Because 1997 represented its first full year of operations, figures are generally higher in comparison with those for the period ended December 31, 1996.

PRODUCTION AND REVENUE

The 1997 average rate of the Liege GORR was 330 Mcf/d. This resulted in revenue of $222,381 ($0.003/share) for the year ended December 31, 1997, up 50% over 1996 revenues.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to $52,830 for the year ended December 31, 1997, compared to $41,395 for the period ended December 31, 1996. As a result of the relationship with APF, G&A is expected to remain well below industry standards, even as Millennium increases its asset base.

INTEREST EXPENSE

Pursuant to its credit facility with NBC, Millennium has been making blended monthly payments of $10,000 since June 1996. For the year ended December 31, 1997, Millennium made payments totaling $120,000.

CAPITAL AND DEFERRED TAXES

Millennium has $138,982 of tax losses available to shelter future income, which losses begin to expire in 2002. The benefit of these losses are shown as deferred taxes on the Corporation's Balance Sheet. It also has approximately $880,000 of unused tax pools available to be used to offset future taxable income.

DEPLETION, DEPRECIATION AND FUTURE SITE RESTORATION EXPENSES

Millennium's depletion for the year was $126,762. This amount represents the recovery of the cost of its capital assets. As a result of its ongoing exploration and production initiatives, the Company will have site restoration or environmental obligations.

LIQUIDITY AND CAPITAL RESOURCES

The most significant transaction during 1997 was the issuance of 1,500,000 flow-through shares at $0.25 per share on December 29, 1997. Attached to each flow-through share was one warrant,

entitling the holder to acquire an additional flow-through share (for drilling expenditures to be incurred in 1999) within 12 months at a price of $0.35 per share.

As described above, Millennium has also entered into a letter of intent to acquire $4.2 million in oil and gas properties in exchange for the issuance of 16,597,959 million shares at $0.25 per share. That transaction is expected to close in early September, 1998.

At this time, it is expected that Millennium's exploration and development activities, as well as future acquisitions, will be funded from cash flow or from its available credit facilities.

RESERVE RECONCILIATION

Management has prepared an evaluation of the Corporation's principal asset at December 31, 1997, being the Liege GORR. The reserve reconciliation set out in the 1996 Annual Report was based on the independent engineering evaluation commissioned by Millennium when it purchased the Liege GORR, effective January 1, 1996. In that evaluation, an assumption was made regarding the economic production limit of the wells subject to the gross overriding royalty. Management now believes that the economic limit of the wells is higher; accordingly, the recoverable economic reserves have been revised downward.

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Year ended December 31	1997	1996
Revenues		
Royalty revenue	$ 222,381	$ 148,208
Interest income	1,355	7,820
	223,736	156,028
Expenses		
General and administrative *(Note 7)*	52,830	41,395
Interest on long-term debt	32,551	27,588
Depletion	126,762	83,000
	212,143	151,983
Income before income taxes	11,593	4,045
Income tax expense- deferred *(Note 6)*	5,911	1,805
Net income for the year	5,682	2,240
Retained earnings, beginning of the year	3,949	1,709
Retained earnings, end of the year	$ 9,631	$ 3,949
Earnings per share	$ –	$ –

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31	1997	1996
Cash provided by (used in) operating activities		
Net income for the year	$ 5,682	$ 2,240
Add items not affecting cash		
Deferred income tax	5,911	1,805
Depletion	126,762	83,000
	138,355	87,045
Net change in non-cash working capital	5,366	(44,843)
	143,721	42,202
Cash used in investing activities		
Purchase of royalty interest *(Note 7)*	–	(947,039)
Capital asset additions	(135,234)	–
	(135,234)	(947,039)
Cash (used in) provided by financing activities		
Increase (decrease) in long-term debt	(125,000)	530,000
Exercise of options	25,000	–
Issue of flow-through shares	350,624	–
	250,624	530,000
Increase (decrease) in cash and term deposits	259,111	(374,837)
Cash and term deposit, beginning of year	66,481	441,318
Cash and term deposit, end of year	$ 325,592	$ 66,481

NOTES TO FINANCIAL STATEMENTS
December 31, 1997

1 SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The more significant of the Company's accounting policies are:

a) Incorporation

The Company was incorporated under the Business Corporations Act of Alberta as 638715 Alberta Ltd. on January 12, 1995 and changed its name to Millenium Energy Inc. on April 25, 1995 and to Millennium Energy Inc. on May 30, 1995. The common shares are listed on the Alberta Stock Exchange and were initially posted for trading on December 1, 1995.

b) Petroleum and natural gas properties and equipment and royalty interest

The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized in cost centres and charged against earnings as set out below. Such costs include royalty acquisition, land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells.

Gains or losses are not recognized upon disposition of oil and gas properties or royalty interests unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion in a cost centre of 20% or more.

Depletion is provided on costs accumulated in producing cost centres using the unit of production method. For purposes of the depletion calculation, gross proved oil and gas reserves, as determined by outside consultants, are used and converted to a common unit of measure on the basis of their approximate energy content.

The net carrying costs of the Company's interests in each cost centre is limited to an estimated recoverable amount. This amount is the aggregate of estimated future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances. An enterprise ceiling test limits the total net carrying costs, net of deferred income taxes and future site restoration cost provisions, to the aggregate of the estimated future net revenues for all cost centres, less estimated future general and administrative costs, financing costs and income taxes. Future net revenues are calculated using prices in effect at the Company's year end without escalation or discounting.

c) Joint venture accounting

Substantially all of the Corporation's petroleum and natural gas exploration and production activities are conducted jointly with others and the accounts reflect the Corporation's proportionate interest in such activities.

2 CAPITAL ASSETS

December 31	**1997**	1996
Petroleum and natural gas assets	**$ 1,082,273**	$ 947,039
Accumulated depletion	**(209,762)**	(83,000)
	$ 872,511	$ 864,039

At December 31, 1997, petroleum and natural gas assets include $135,234 in respect of an unproved property which has been excluded from depletion calculations.

3 LONG-TERM DEBT

December 31	1997	1996
Bank loan	$ 405,000	$ 530,000
Less: Current portion	(120,000)	(120,000)
	$ 285,000	$ 410,000

Long-term debt consists of a non-revolving demand loan, reviewed annually by the bank in April, bearing interest at prime rate plus 1-1/4% per annum (6% at December 31, 1997) and secured by a general assignment of book debts registered in the Province of Alberta and a registered $1,000,000 floating charge debenture on all assets of the Company. Interest is paid monthly with monthly principal payments of $10,000.

Principal repayments on outstanding debt are:

1998	120,000
1999	120,000
2000	120,000
2001	45,000
	$ 405,000

4 SHARE CAPITAL

a) Authorized

Unlimited number of Class A voting shares
Unlimited number of Class B, C, D and E preferred shares, issuable in series

The Directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attaching to each Class of the preferred shares.

b) Issued and outstanding

	Shares	Amount
Class A voting shares		
Balance, December 31, 1996 and 1995	7,500,000	$ 467,098
Stock options exercised	250,000	25,000
Flow-through shares, net of related deferred taxes[a]	1,500,000	207,750
Share issue costs, net of related deferred taxes[a]	–	(13,505)
Balance, December 31, 1997	9,250,000	$ 686,343

[a] During the year, Millennium Energy Inc. closed a private placement of 1,500,000 units at a price of $0.25 per unit, each comprised of one flow-through Class A share and one warrant to acquire a flow-through Class A share for an aggregate consideration of $375,000. The warrants are exercisable at a price of $0.35 per Class A share until December 20, 1998.

The net proceeds of this offering will be used to incur Canadian exploration expenses and Canadian development expenses, which will be renounced to the purchasers.

c) Options

The Company has established a Directors', Management and Employees' Stock Option Plan. At December 31, 1997 there were 220,000 options outstanding at an exercise price of $0.10 per share and 30,000 options outstanding at an exercise price of $0.25 per share, which expire July 1, 2000.

5 FINANCIAL INSTRUMENTS

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, and all current liabilities and long-term borrowings.

a) Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet, including long-term borrowings, approximate their carrying amount due to the short-term maturity of those instruments and the floating prime rate applied to long-term borrowings.

b) Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

c) Interest rate risk

At December 31, 1997 the increase or decrease in net earnings before income tax for each one percent change in interest rates on floating rate debt amounts to $4,050.

6 INCOME TAXES

The income tax provision differs from the calculated tax obtained by applying the combined Canadian Federal and Provincial corporate tax rate to the income before income taxes. These differences are accounted for as follows:

		1997		1996
Net income before taxes	$	11,593	$	4,045
Statutory rate		44.6%		44.6%
Expected tax provision		5,171		1,805
Increase (decrease) resulting from				
Non-deductible administrative expenses		740		–
Actual income tax expense - deferred	$	5,911	$	1,805

The Company has approximately $880,000 (1996 - $870,000) of unused tax pools available to be used to offset future taxable income subject to certain restrictions of the Income Tax Act.

7 RELATED PARTY TRANSACTIONS

In 1996, to complete its Major Transaction as a Junior Capital Pool Corporation, the Company acquired from an affiliate APF Energy Management Inc. ("APF") (formerly Skyridge Resources Inc.), a 2/3 interest in a 15% Gross Overriding Royalty on 7 producing wells in the Liége area. The acquisition price was equal to APF's cost, and was funded by a combination of cash and debt financing.

During 1997, the Company paid APF $28,226 (1996 - $29,167) as reimbursement for general and administrative costs on a cost recovery basis. Of these amounts, $42,393 (1996 - $14,167) is recorded as accounts payable at December 31, 1997.

8 COMMITMENTS

Pursuant to the sale of flow-through shares during the year, the Company committed to incur $375,000 of qualifying expenditures, the tax benefits for which are renounced to the Company's flow-through shareholders. This renunciation of tax benefits will result in no tax basis existing for $375,000 of the Company's additions to capital assets (Note 4).

9 SUBSEQUENT EVENT

On March 20, 1998, the Company entered into a letter of intent to acquire a number of oil and gas properties in Alberta and Saskatchewan for $4,200,000 payable by the issuance of 16,800,000 shares at a price of $.25 per share.

CORPORATE INFORMATION

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Nancy Penner, *Director*

Martin Hislop, *Director*
President & Chief Executive Officer

Steven Cloutier, *Director*
Executive Vice President,
Chief Operating Officer & Secretary

Bonnie Carnahan
Vice President, Operations

Raymond Donais
Vice President, Exploration

Legal Counsel

Parlee McLaws
Calgary, Alberta

Bankers

National Bank of Canada
Calgary, Alberta

Engineering Consultants

Sproule Associates Limited
Calgary, Alberta

Trustee, Registrar & Transfer Agent

The CIBC Mellon Trust Company
Calgary, Alberta

Auditors

Price Waterhouse
Calgary, Alberta

Stock Exchange Listing

The Alberta Stock Exchange
Symbol: "MLN"

ABBREVIATIONS

Bbl/d	Barrels of oil per day
Bcf	Billion cubic feet
Boe	Barrel of oil equivalent (10 mcf = 1 Bbl)
Boe/d	Barrels of oil equivalent per day
Bwpd	Barrels of water per day
GORR	Gross Overriding Royalty
Mboe	Thousand barrels of oil equivalent
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
Mmcf	Million cubic feet
Mmcf/d	Million cubic feet per day
NGL	Natural gas liquid

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